

Message Text

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EXDIS

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TAGS: EAID, EGEN, EFIN, EG

SUBJECT: EGYPTIAN ECONOMY: THE DIFFICULT AND PROBABLY PROTRACTED
PROBLEM

REF: STATE 188504

1. SUMMARY: THE EGYPTIAN ECONOMY IS IN A PRECARIOUS POSITION, ONE THAT HAS POTENTIALLY SERIOUS IMPLICATIONS FOR THE ME REGION AND THE WORLD. MASTERY OF THE PRESENT CRISIS, IF IT CAN BE ACCOMPLISHED, WILL NOT BE THE END OF THE DIFFICULTIES - IT WILL MERELY PERMIT EGYPT TO FACE A DIFFICULT DEVELOPMENT PROCESS, PROBABLY OVER AN EXTENDED PERIOD. IN DECIDING TO ASSIST THE EGYPTIANS IN ACHIEVING A SELF-SUSTAINING OR AT LEAST EASILY-SUSTAINED ECONOMY, THE U.S. HAS THEREFORE TAKEN ON A LONG-TERM AND DEMANDING PROJECT. RECOGNITION OF THIS BASIC TRUTH, UNPLEASANT THOUGH IT MAY BE, IS AN IMPORTANT ELEMENT IN ENSURING THAT OUR EFFORTS TO BE OF HELP HAVE A REAL CHANCE FOR EVENTUAL SUCCESS. THIS MESSAGE DISCUSSES THE DIFFICULTIES AND MAKES SOME PRELIMINARY SUGGESTIONS AS TO HOW OUR PROGRAMS MAY HELP IN OVERCOMING THEM. END SUMMARY.

2. INTRODUCTION: INR'S REPORT ON THE EGYPTIAN ECONOMY, REFTEL, IS AN EXCELLENT PRESENTATION OF THE

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PRESENT CRISIS FACING EGYPTIAN ECONOMY AND ITS

CAUSES. GIVEN COMPLICATED NATURE OF THE ECONOMY, IT IS DOUBTFUL THAT ANY ONE, INCLUDING MANY OF THE EGYPTIANS IN CHARGE, HAS A VERY CLEAR IDEA OF EXACTLY WHERE THE ECONOMY STANDS TODAY, BECAUSE OF CONFUSION AND THE LACK OF SOLID INFORMATION ON THE SUBJECT. OF GREATER SIGNIFICANCE, NO ONE APPEARS WILLING TO SERIOUSLY CONSIDER WHERE IT IS LIKELY TO BE IN THE FUTURE.

3. EMBASSY'S MAJOR CONCERN AT THIS POINT IS TO ENSURE THAT USG HAS A CLEAR UNDERSTANDING OF THE COMPELLING MAGNITUDE OF THE IMMEDIATE PROBLEMS FACING EGYPT AND THAT WE RECOGNIZE THEY ARE QUITE DISTINCT IN MANY IMPORTANT RESPECTS FROM THE LONG-TERM DEVELOPMENT PROBLEMS CONFRONTING THE COUNTRY. WHATEVER POSSIBILITIES THERE ARE FOR THE SUCCESS OF OUR EFFORTS TO AID EGYPT, THEY ARE DIMINISHED TO THE EXTENT THAT WE FAIL TO REALIZE - OR ADMIT - THAT THE EFFORT WILL BE NEITHER EASY - IN TERMS OF THE PRESENT CRISIS - NOR SHORT - IN TERMS OF DEVELOPMENT. BY ITS VERY NATURE, REALISM MAY APPEAR NEGATIVE WHEN COMPARED TO A MEASURE OF OPTIMISM, BUT THE FACT THAT EGYPT'S ECONOMIC OUTLOOK IS GRIM IN THE SHORT RUN AND BLEAK IN THE LONG RUN, UNLESS GOE IS WILLING TO TAKE POLITICIALLY PAINFUL BUT ECONOMICALLY NECESSARY STEPS, SHOULD NEITHER DISCOURAGE NOR DISTRESS ANYONE SERIOUSLY INTERESTED IN BEING OF ASSISTANCE. THE TENDENCY OF REPORTS FROM BANK AND FUND IS TO REFER TO EGYPT'S FUTURE AS A FEW DIFFICULT YEARS BEFORE A SIGNIFICANT UPSWING. THERE IS VERY LITTLE OTHER THAN OPTIMISM TO JUSTIFY SUCH AN EVALUATION, PARTICULARLY IF MAJOR ECONOMIC REFORMS, SUCH AS THOSE RECOMMENDED BY THE IMF, ARE NOT UNDERTAKEN PROMPTLY.

4. THE IMF AND THE IBRD USE WELL-KNOWN AND FAMILIAR PHRASES TO DESCRIBE EGYPT'S CURRENT DILEMMA, AS WELL AS STANDARD ECONOMIC TERMS TO DESCRIBE THE FUTURE. SINCE THEIR PUBLICATIONS ARE
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RELATIVELY PUBLIC, AND MUST BE "CLEARED" WITH EGYPT, IT IS DIFFICULT TO BE ENTIRELY FACTUAL OR CANDID. A HARD AND COLD LOOK AT THE REALITIES, HOWEVER, LEAD TO THE CONCLUSION THAT EGYPT DOES NOT NECESSARILY HAVE VERY BRIGHT PROSPECTS. THE EGYPTIAN ECONOMY MAY ACHIEVE ECONOMIC GROWTH AND STABILITY, AND THEN AGAIN IT MAY NOT, BUT IT IS VERY UNLIKELY TO BE ACCOMPLISHED WITHIN THE

"TWO OR THREE YEARS" WHICH ARE USUALLY REFERRED TO AS THE "DIFFICULT PERIOD" THAT LIES AHEAD. THOSE TWO OR THREE YEARS WILL PROBABLY BE A PERIOD OF CRISI, AND THE REALLY DIFFICULT YEARS REQUIRED TO OVERCOME UNDERDEVELOPMENT WHICH COME AFTER CAN ONLY BE FACED IF THE CRISIS IS DEALTH WITH. A HARD-HEADED ANALYSIS OF THE SITUATION LEADS TO AN ESTIMATE OF EIGHT TO TEN YEARS AT A MINIMUM IF THE GOE CONTINUES TO DRAG ITS FEET ON REFORMS (A FIGURE THAT THE IBRD WOULD PREFER TO USE IN ITS ESTIMATES IF THE EGYPTIANS WOULD NOT OBJECT) BEFORE ECONOMIC GROWTH CAN BEGIN. THE THOUGHT MUST ALWAYS BE BORNE IN MIND THAT THIS OBJECTIVE MAY NEVER BE ATTAINED.

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5. WE ARE NOT SUGGESTING THAT EGYPT WILL DISAPPEAR. THE DIRE WARNINGS OVER THE YEARS THAT COUNTRY X OR COUNTRY Y WILL COLLAPSE HAVE GENERALLY BEEN PROVEN INCORRECT. EGYPT WILL NOT CEASE TO EXIST, NOR WILL IT NECESSARILY DISSOLVE IN ECONOMIC RUIN, BUT EGYPT'S POLITICS COULD EASILY CHANGE AS A RESULT OF ECONOMIC FAILINGS, AND POLITICS ARE PRECISELY WHY THE UNITED STATES AND OTHERS ARE INTERESTED.

6. NONETHELESS, EGYPT, LIKE ANY OTHER DEVELOPING COUNTRY WHICH FAILS TO TAKE REQUIRED ACTIONS, COULD BECOME ANOTHER BANGLADESH. THIS STATEMENT SHOULD NOT BE DISMISSED BY CASUAL REFERENCES TO THE FACT THAT BANGLADESH STILL EXISTS AND IS

MORE OR LESS FUNCTIONING. THE DIFFERENCE BETWEEN EGYPT AND BANGLADESH IS REFLECTED BY THE FACT - PUT BLUNTLY - THAT ASIDE FROM PURELY HUMANITARIAN CONSIDERATIONS NO ONE IS SERIOUSLY CONCERNED OVER WHAT HAPPENS IN OR TO THE LATTER. THE NUMBER OF COUNTRIES INVOLVED IN PROVIDING ASSISTANCE TO SADAT, AND THE MAGNITUDE OF THE ASSISTANCE THEY ARE PROVIDING, IS A VERY CLEAR INDICATION THAT WHAT HAPPENS OR FAILS TO HAPPEN HERE IS VERY IMPORTANT INDEED. IF SADAT'S EFFORTS TO REORIENT AND REVITALIZE THE ECONOMY DO NOT SUCCEED, IT COULD CONCEIVABLY HAVE SERIOUS NEGATIVE IMPLICATIONS FOR PEACE, GROWTH AND STABILITY IN THE MIDDLE EAST, THE AVAILABILITY OF OIL SUPPLIES

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FOR THE REST OF THE WORLD, AND ALL THE OTHER ASPECTS OF GEOPOLITICS OF CONCERN TO THE U.S. AND OTHERS, INCLUDING A RISK OF ARMED CONFRONTATION IF POST-SADAT EGYPT SHOULD OPT FOR RETURNING TO CONFLICT WITH ISRAEL.

7. IT IS IN RECOGNITION OF THESE FACTORS THAT THE EMBASSY WISHES TO UNDERLINE SOME OF THE HARSH REALITIES OF THE EGYPTIAN ECONOMY, IN THE BELIEF THAT EVERYONE CONCERNED CAN MORE EFFECTIVELY SUPPORT AND CARRY FORWARD OUR PROGRAMS IF THEY HAVE A BETTER UNDERSTANDING OF WHAT IS INVOLVED. WITH THE ABOVE AS PREAMBLE, AND WITH EVERYONE FIRMLY RETAINING THE IDEA THAT WHAT FOLLOWS IS INTENDED TO BE AN EFFORT AT CANDOR, IT MAY BE USEFUL TO TAKE A LOOK AT THE CIRCUMSTANCES CONTROLLING EGYPT'S EFFORT AT OVERCOMING ITS ECONOMIC PROBLEMS. THIS REPORT IS INTENDED TO THOSE WHO HAVE BEEN FOLLOWING EVENTS IN EGYPT AND ARE FAMILIAR WITH THE SITUATION. IT CAN BE REGARDED AS A SUMMARY FOCUS PAPER, AND THEREFORE DOES NOT REPEAT DETAILED STATISTICS THAT HAVE PREVIOUSLY BEEN SUBMITTED.

END INTRODUCTION.

8. THE OVERALL SETTING. AS IN ALL HUMAN ENDEAVOR, SOME ATTENTION MUST BE PAID TO THE MANAGERIAL ASPECTS, AND IT IS HERE THAT THE ROOT OF EGYPT'S PROBLEMS CAN BE FOUND, BOTH IN THE PAST AND IN THE PRESENT. AT THIS POINT IN TIME, THE EGYPTIAN ECONOMY IS HIGHLY DISORGANIZED BOTH VERTICALLY AND HORIZONTALLY. THE DECISION, OR AT LEAST THE ANNOUNCEMENT, OF THE "OPEN DOOR", FOR EXAMPLE, HAS CREATED CONFUSION AT ALL LEVELS OF THE GOVERNMENT AND THE PRIVATE SECTOR.

NO ONE, IT APPEARS, HAS CLEAR IDEA OF HOW MUCH OF THE ECONOMY IS TO BE PRIVATE AND HOW MUCH IS TO BE PUBLIC OR HOW MUCH IS TO BE A LITTLE BIT OF BOTH. EMERGING FROM TWENTY-FIVE YEARS OF MANAGED ECONOMY, BADLY MANAGED AT THAT, THE MASSIVE AND SINGULARLY INEPT BUREAUCRACY IS ILL-EQUIPPED TO HANDLE THE INSTITUTION OF A
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MIXED ECONOMY, EVEN IF THEY UNDERSTOOD THE GUIDELINES - AND THERE AREN'T ANY. THIS LACK, AND THE BACKING AND FILLING THAT HAS RESULTED FROM EFFORTS TO IMPOSE AN ONLY PARTIALLY CONCEIVED ECONOMIC ORDER ON A CUMBERSOME, WILLFUL, THOROUGHLY DISORGANIZED AND HESITANT ADMINISTRATION HAVE FURTHER COMPLICATED AN ALREADY DIFFICULT PROBLEM. THIS SAME SET OF SHORTCOMINGS ADVERSELY AFFECT THE EFFORTS TO IMPLEMENT MORE RATIONAL, COMPREHENSIVE AND STRINGENT PLANNING FUNCTIONS, REVAMP THE BUDETARY AND FINANCIAL OPERATIONS, AND THE FULL RANGE OF OTHER ECONOMIC UNDERTAKINGS IN WHICH EGYPT IS INVOLVED. IN SIMPLE TERMS, SINCE THE EGYPTIANS DO NOT HAVE ANY IDEA WHERE THEY ARE GOING, IT SHOULD NOT BE SURPRISING THAT THEY ARE HAVING A DIFFICULT TIME IN GETTING THERE.

9. AFTER YEARS OF OVER-CENTRALIZED AND EXC SSIVE CONTROL, SADAT'S EFFORS TO TURN TO A MORE LIBERAL ECONOMIC APPROACH, WITH GREATER CONCERN FOR EFFICIENCY, WERE WELCOME. HIS INITIAL MOVES, HOWEVER, HAVE NOT BEEN CAREFULLY IMPLEMENTED AND HAVE NOT BEEN ADEQUATELY FOLLOWED-UP WITH FURTHER POLICIES WHICH WOULD PERMIT THIS LIBERALIZATION TO TAKE PLACE IN A REASONABLY ORDERLY FASHION. SOME OF THE STEPS THAT WERE TAKEN HAD A NEGATIVE RATHER THAN POSITIVE IMPACT DUE TO THE LACK OF A BROAD POLICY BACKGROUND INTO WHICH THEY WOULD FIT, E.G., "OWN CURRENCY IMPORTS," WHICH HAVE CONTRIBUTED TO THE VISIBLE AND GROWING DISPARITY BETWEEN THE RICH AND THE REST.

10. EVEN IF THE ECONOMY WERE APPROPRIATELY ORGANIZED AND THE GOE HAD A CLEAR IDEA OF WHITHER IT WAS BOUND, EGYPT WOULD STILL FACE A VIRTUALLY INSURMOUNTABLE OBSTACLE WHICH HAS LED TO, IS AMPLYING, AND WILL PROLONG ITS DIFFICULTIES: A SHORTAGE OF FINANCIAL RESOURCES, RESULTING FROM CATSTROPHIC ECONOMIC MISMANAGEMENT AND LIMITED RESOURCES. WHILE THERE ARE BY DIFINITION NO SIMPLE SOLUTIONS TO COMPLICATED PROBLEMS, IF SUFFICIENT FUNDS WERE AVAILABLE AND

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WERE PROPERLY UTILIZED (AND THE COMMITMENTS WOULD HAVE TO BE VERY LARGE), EGYPT COULD CONCEIVABLY TAKE APPROPRIATE STEPS TO OVERCOME HER PRESENT DIFFICULTIES IF THE GOVERNMENT WERE WILLING TO TAKE THE NECESSARY MEASURES. (NOTE, HOWEVER, THAT RECEIPT OF ALMOST \$3 BILLION IN 1975, WITHOUT THE NECESSARY REFORMS, LEAD TO LARGER RATHER THAN SMALLER DEFICITS, WHICH IS ONE OF THE REASONS THAT SOME ECONOMISTS FEAR THE RESULTS OF OIL DISCOVERIES.) SINCE SUCH A SITUATION APPEARS UNLIKELY TO DEVELOP FOR SOME TIME, GIVEN CURRENT GOE DILATORIOUSNESS, THE LIKELY COURSE OF EVENTS IS A DETERORATION, AND NOT IMPROVEMENT, IN THE FINANCIAL PICTURE. FURTHER, THE SHORTAGE OF FUNDS BECOMES INCREASINGLY SIGNIFICANT AS THE POPULATION CONTINUES TO BURGEON. THIS IS THE THIRD OF EGYPT'S THREE PRINCIPAL ECONOMIC PROBLEMS: NO MANAGEMENT, NO MENY, TOO MANY PEOPLE.

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EXDIS

11. AGRICULTURE. FOR A COUNTRY WHOSE ECONOMY IS HEAVILY BASED ON AGRICULTURE (LABOR, GNP, EXPORTS), EGYPT IS IN A BAD WAY WHICH WILL PROBABLY GET SORSE. KEY CAUSAL FACTORS ARE CONSIDERED TO BE INADEQUATE

PRICE INCENTIVES FOR PRODUCTION, COUNTERPRODUCTIVE CONTROL OF PRODUCTION INPUTS AND OUTPUT, MARKETING, AND INADEQUATE AND INAPPROPRIATE INVESTMENT PRIORITIES. THE USDA ESTIMATES THAT EGYPT IS NOW 73 PERCENT SELF-SUFFICIENT IN TERMS OF CALORIC NEEDS, A FIGURE THAT IS EXPECTED TO DROP BELOW 50 PERCENT BY 1985. BOTH TOTAL PRODUCTION AND AVERAGE YIELD MAY WELL DECLINE, THE FORMER AS A RESULT OF LOSING THE FERTILE LANDS OF THE NILE VALLEY TO URBAN EXPANSION AND RELATED USES WHILE ATTEMPTING TO REPLACE THEM WITH RECLAIMED MARGINAL SOILS ON THE EDGES OF THE VALLEY; THE LATTER BECAUSE OF INCREASING WATERLOGGING AND SALINITY COUPLED WITH THE INABILITY TO IMPORT SUFFICIENT QUANTITIES OF FERTILIZERS AND PESTICIDES OR FINANCE REQUIRED DRAINAGE SCHEMES. THUS, WHILE SADAT HAS ANNOUNCED AS A MAJOR GOAL THE ATTAINMENT OF SELF-SUFFICIENCY IN ALL FOODSTUFFS - EXCEPT WHEAT - WITHIN THE NEXT THREE YEARS, IT IS UNLIKELY THAT EGYPT WILL BE ABLE TO REDUCE THE WIDENING GAP BETWEEN PRODUCTION AND NEEDS. SOMEWHAT IN THE PAST, THE LINE REPRESENTING EGYPT'S AGRICULTURAL CAPABILITIES AND THE LINE REPRESENTING POPULATION GROWTH CROSSED AT AN ANGLE WHICH SEVERELY LIMITS

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THE POSSIBILITY OF DIMINISHING THE INCREASING SHARE OF AVAILABLE MONEY THAT MUST BE EXPENDED FOR IMPORTS MERELY TO KEEP THE POPULATION ALIVE, PARTICULARLY IN THE ABSENCE OF APPROPRIATE POLICY REFORMS. EVEN IF PRODUCTION VOLUME REMAINS STABLE, POPULATION GROWTH ALONE WILL LEAD TO A 2.5 PERCENT DROP IN PER CAPITA OUTPUT. BY THE SAME TOKEN, THE GROWING DEMANDS OF THE DOMESTIC POPULATION WILL EAT INCREASINGLY INTO THE EXISTING EXPORT POTENTIALS, E.G., COTTON, WHICH CONTRIBUTES ABOUT 50 PERCENT OF TOTAL EXPORT EARNINGS, AND WHOSE TOTAL PRODUCTION IS ON A DOWNWARD TREND ANYWAY, FURTHER DIMINISHING THE POSSIBILITIES OF USING AGRICULTURAL EXPORTS AS A MEANS OF FINANCING AGRICULTURAL IMPORTS. WHILE EGYPT'S SOIL, LOCATION, ETC., HOLD OUT EXCELLENT PROSPECTS FOR NEW TECHNOLOGY AND FOR FRUIT AND VEGETABLE HARD-CURRENCY EXPORTS OF MAJOR IMPORTANCE, THIS WILL REQUIRE BOTH TIME AND MONEY, NEITHER OF WHICH SADAT HAS.

12. TOURISM. CONSISTENTLY REFERRED TO AS ONE OF THE SECTORS WHICH WILL ASSIST EGYPT IN ATTAINING ECONOMIC TAKEOFF, TOURISM WILL BE OF VIRTUALLY

NO IMPORTANCE IN TERMS OF DEALING WITH IMMEDIATE ECONOMIC PROBLEMS. TOURISM CANNOT DO MUCH FOR THE ECONOMY UNTIL THE NUMBER OF TOURISTS BECOMES SIGNIFICANTLY LARGER THAN AT PRESENT. THE OBSTACLE IMPOSED BY EXCESSIVE DELAYS IN ERECTING NEW TOURIST FACILITIES IS THEREFORE GROUNDS FOR QUESTIONING HOW MUCH DIFFERENCE TOURISM WILL MAKE IN THE NEXT FIVE YEARS.

13. INDSTRY. PAST POLICIES FOLLOWED BY EGYPT FOCUSED ON INDUSTRIAL PLANTS WITH A HIGH LEVEL OF FOREIGN EXCHANGE COSTS FOR CONSTRUCTION AND OPERATION, AND A CONSEQUENT NEGATIVE BOP IMPACT. STATEMENTS AS TO THE PERCENTAGE OF UNDERUTILIZATION OF INDUSTRIAL CAPACITY ARE OPEN TO QUESTION IN TERMS OF SPECIFIC NUMBERS, BUT IT IS CLEAR THAT SHORTAGES OF RAW MATERIALS AND SPARE PARTS RESULTING FROM THE
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FOREIGN EXCHANGE SHORTAGE HAVE HAD AND ARE HAVING AN IMPACT ON INDUSTRIAL OUTPUT. THIS SITUATION IS UNLIKELY TO CHANGE SIGNIFICANTLY BECAUSE OF THE CONTINUING PRIORITY NEED TO UTILIZE SCARCE FOREIGN EXCHANGE TO FINANCE BASIC CONSUMER IMPORTS, SUCH AS FOOD. IMPORT FINANCING, SUCH AS U.S. CIP PROGRAM, WILL HELP, BUT CONSTITUTES A RELATIVELY SMALL PROPORTION OF TOTAL NEED. INDUSTRIAL PRODUCTION WILL HAVE A DIFFICULT TIME EVEN REMAINING AT ITS PRESENT LEVEL - AND IT MAY FALL, IN EITHER CASE HAVING A DELETERIOUS EFFECT ON THE DOMESTIC ECONOMY AND THE BALANCE OF PAYMENTS, UNLESS THE MONEY TO FINANCE CONTINUED VERY SIZEABLE IMPORTS OF THE NECESSARY INPUTS CAN BE FOUND. THE FINANCIAL CONSTRAINT ALSO EFFECTS EFFORTS AT DEVELOPMENT OF NEW INDUSTRIAL PLANTS, PARTICULARLY THOSE FINANCED BY THE GOE'S OWN RESOURCES GIVEN THE EGYPTIAN PENCHANT FOR HEAVY INDUSTRY REQUIRING MAJOR CAPITAL OUTLAYS. THE INFLUX OF PRIVATE CAPITAL FOR THE SAME PURPOSE UNDER THE "OPEN DOOR" HAS THUS FAR BEEN AN ALMOST COMPLETE FAILURE (SEPTIL), AND, WHILE SOME POSSIBILITIES STILL EXIST FOR CONTRIBUTIONS FROM ABROAD, THEY WILL BE RELATIVELY INSIGNIFIANT. THE TIME REQUIRED FOR COMPLETION OF ANY MEANINGFUL NUMBER OF PROJECTS (AND THERE ARE NONE IN THE OFFING) WILL EFFECTIVELY ELIMINATE ANY CONTRIBUTION THEY COULD MAKE DURING THE CRISIS YEARS.

14. PETROLEUM. HERE, AT LEAST, THE OUTLOOK IS SOMEWHAT BRIGHTER, PARTICULARLY SINCE FAIRLY SIGNIFICANT QUANTITIES OF OIL HAVE ALREADY BEEN

DISCOVERED AND THE PETROLEUM SECTOR IS EXPECTED TO
CONTRIBUTE \$1 BILLION PLUS TO HARD CURRENCY
EARNINGS BY 1980. THERE ARE POSSIBILITIES OF FURTHER
FINDS, BUT THE FACT THAT THERE ARE TWENTY PLUS
COMPANIES BUSILY ENGAGED IN PROSPECTING SHOULD NOT
BE CONSIDERED AS MAKING ANY DIFFERENCE IN TERMS
OF PROSPECTS: THE PRESENCE OF OIL IN THE GROUND
IS NOT A FUNCTION OF HOW MANY PEOPLE ARE
LOOKING FOR IT - OR HOW BADLY IT IS NEEDED. KEY
FACTS TO BEAR IN MIND ARE THAT (1) WITH POPULATION
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OF ALMOST 40 MILLION, EGYPT WILL NEED
MASSIVE AMOUNTS OF OIL IF ANY REAL DIFFERENCE IS
TO BE MADE AND (2) EGYPT'S FUNDAMENTAL PROBLEM
IS NOT AVAILABILITY OF MONEY, BUT RATHER
HOW AVAILABLE RESOURCES ARE USED. OTHER ARAB STATES
ARE WEALTHY PRECISELY BECAUSE THEY HAVE SMALL
POPULATIONS TO GO WITH LARGE AMOUNTS OF OIL. IN
EGYPT, SITUATION IS REVERSED. THE SUMED PIPELINE
WILL ALSO HELP TO AN EXTENT WHICH IS NOT YET
CLEAR, BUT WHICH WILL PROBABLY BE RELATIVELY MARGINAL
IN TERMS OF OVERALL PROBLEM.

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15. OTHER SOURCES OF REVENUE; THE SUEZ CANAL AND WORKER

REMITTANCES ARE TWO ADDITIONAL REVENUE EARNERS FOR EGYPT, BOTH OF WHICH WILL MAKE CONTRIBUTIONS THAT ARE EXPECTED TO INCREASE OVER TIME. CANAL TOLLS OF \$500 MILLION (A GROSS INCOME ESTIMATE), ADDED TO WHATEVER REMITTANCES WILL BE, AND WILL CERTAINLY HELP TO CLOSE THE GAP. BOTH AGRICULTURAL AND INDUSTRIAL EXPORTS, AS NOTED, WILL HAVE A DIFFICULT TIME INCREASING MARKEDLY IN VOLUME, IF NOT IN VALUE, FROM PRESENT LEVELS, AND THEREFORE CANNOT DO MUCH TO COVER EXPECTED DEFICITS. AN ADDITIONAL FACTOR TO BE NOTED IS THAT AS LATE AS 1975, ABOUT 70 PERCENT OF EGYPT'S TOTAL EXPORTS WENT TO BILATERAL AGREEMENTS COUNTRIES, WHILE ONLY APPROX 13 PERCENT OF IMPORTS CAME FROM THEM. THIS DIFFERENCE, ADDED TO FACT THAT IMPORTS WERE ABOUT THREE TIMES AS LARGE AS EXPORTS, INDICATES THAT A REORIENTATION OF THE EXTERNAL ASPECTS OF THE ECONOMY, AS WELL AS THE INTERNAL, WILL BE REQUIRED BEFORE DIFFERENCES APPEAR. THIS WILL BE ANOTHER DIFFICULT AND DRAWN-OUT PROBLEM.

16. BALANCES - PRESENT AND FUTURE. AS REPORTS DONE BY INR AND OTHERS MAKE CLEAR, THE SYMPTOM OF EGYPT'S PRESENT PROBLEM IS A LIQUIDITY CRISIS, THE RESULT OF COUNTERPRODUCTIVE POLICIES AND MISMANAGEMENT. RECOGNITION OF THIS FACT SHOULD INEVITABLY LEAD TO CONSIDERATION OF WHAT CAN POSSIBLY REDUCE THE LIKELIHOOD OF OCCURRENCE OF FUTURE LIQUIDITY CRISES. THE ANSWER IN THE NEAR TERM, UNFORTUNATELY, IS VERY LITTLE, OR FRANKLY, NOTHING - INCLUDING THE IMPOSITION OF ECONOMIC REFORMS, WHICH THE GOE IS UNFORTUNATELY THUS FAR UNWILLING

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TO CONSIDER FOR PERHAPS VERY SOUND POLITICAL REASONS. EGYPT WILL PROBABLY RUN PERSISTENT AND SIZEABLE DEFICITS FOR YEARS TO COME, UNDER ANY ARRANGEMENTS THAT PERMIT EVEN MINIMAL ROOM FOR THE NECESSARY GROWTH AND EXPANSION OF THE ECONOMY REQUIRED IN ORDER EVENTUALLY TO BECOME SELF-SUFFICIENT. DEFICITS WILL HAVE TO BE COVERED BY SOME MEANS, THEY WILL NOT GO AWAY BY THEMSELVES (BARRING A NATURAL OR MAN-MADE DISASTER THAT SHARPLY REDUCES THE POPULATION WITHOUT DESTROYING THE ECONOMY) AND IT IS AS MUCH A FACT OF ECONOMIC LIFE IN EGYPT TODAY - AND TOMORROW - AS THE NILE RIVER. THE FAILURE TO IMPLEMENT NEEDED BASIC ECONOMIC REFORMS IN THE NEAR TERM WILL LEAD TO STEADILY WORSENING CONDITIONS THAT WILL REQUIRE STRONGER AND EVEN LESS PALATABLE MEASURES IN THE FUTURE, BUT THIS FACT DOES NOT YET SHOW ANY SIGNS OF BEING UNDERSTOOD BY THE GOE.

17. POPULATION. HANGING OVER EVERY ASPECT OF THE ECONOMIC SCENE IS THE GROWING POPULATION, CLEARLY THE MOST WORRISOME ASPECT OF THE PROBLEM. WHILE INCREASES OF ALMOST ONE MILLION PER YEAR IN TOTAL POPULATION MAY NOT APPEAR LARGE WHEN COMPARED TO COUNTRIES SUCH AS INDIA, FOR EGYPT THEY ARE AWE-

SOME. WITH ONE OF GREATEST POPULATION DENSITIES IN THE WORLD, WITH NO ROOM FOR EXPANSION, WITH LOSSES OF AGRICULTURAL LAND, INCREASED CONSUMPTION OF DOMESTIC AND AGRICULTURAL PRODUCTION, CONSTANTLY CLIMBING IMPORT COSTS MERELY FOF SUBSISTENCE, SHORTAGES OF JOBS, HOMES, AND ALL THE OTHER UNFORTUNATE ASPECTS OF A MAJOR POPULATION EXPLOSION, EGYPT'S FUTURE IS CLOUDED IN A WAVE OF HUMANITY THAT THREATENS TO ENGULF ALMOST ANY EFFORT THAT COULD BE UNDERTAKEN TO CHANGE THE SITUATION. LIKE LOCUSTS, THE PEOPLE WILL DEVOUR EVERYTHING. CREATION OF BASIC INFRASTRUCTURE AND SERVICES FOR CAIRO, AS A SMALL EXAMPLE, WILL BE LIKE HIGHWAY BUILDING IN SOUTHERN CALIFORNIA: A NEVER-ENDING, EXTREMELY COSTLY AND HOPELESS RACE TO CATCH UP TO WHAT WAS NEEDED YEARS BEFORE. DIFFERENCES ARE THAT CALIFORNIA HAS MONEY, AND WHAT WE ARE TALKING ABOUT HERE IS HOUSING, HEALTH CARE, WATER, SEWERAGE, ELECTRICITY. MIN OF INDUSTRY, TO CITE ANOTHER EXAMPLE, HAS ANNOUNCED NECESSITY OF CREATING 300,000 NEW INDUSTRIAL JOBS EACH YEAR BY 1980 (WHICH, IT SHOULD BE NOTED, WOULD ONLY COVER THOSE ENTERING THE LABOR MARKET FOR FIRST TIME). SINCE BY ROUGH RULE OF THUMB AN INDUSTRIAL JOB IN EGYPT SHOULD

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REQUIRE AN INVESTMENT ON THE ORDER OF \$10,000, GIVEN GIVEN GOE'S TENDENCY TOWARD HEAVY INDUSTRY, MININD IS TALKING OF INVESTMENTS OF UP TO \$3 BILLION ANNUALLY. (A SHIFT IN INVESTMENT PRIORITIES TO MEDIUM AND SMALL INDUSTRY, WITH ENCOURAGEMENT TO AGRICULTURE WOULD BE A BETTER USE OF RESOURCES, BUT THERE ARE NO INDICATIONS THIS IS BEING CONSIDERED.) IN ORDER TO PROVIDE BASE REQUIRED FOR SUCH GROWTH, ASSUMING AVAILABILITY OF THE NECESSARY FUNDS, MASSIVE INVESTMENTS IN INDUSTRY AND INFRASTRUCTURE SHOULD HAVE STARTED SEVERAL YEARS AGO - AND THERE ARE NONE BEING MADE EVEN NOW. TALK OF EXPORTING THE SURPLUS POPULATION IS SPECIUS. WHAT WOULD BE REQUIRED IS MOVEMENT OF MILLIONS, NOT THOUSANDS.

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18. CONCLUSION AND RECOMMENDATIONS: WHAT ALL THIS MEANS IS THAT TO THE EXTENT MAINTENANCE OF A RATIONAL, STABLE REGIME IN EGYPT CONTINUES TO BE A MAJOR US FOREIGN POLICY OBJECTIVE, WE HAVE TAKEN ON AN ENORMOUSLY DIFFICULT TASK. THE POLITICAL IMPERATIVES OF OUR INTERESTS ARE CLEAR AND ARE UNLIKELY TO CHANGE IN THE NEAR TERM. IN THE SAY WAY AND FOR THE SAME REASONS, WE MUST RECONCILE OURSELVES TO THE FACT THAT OUR ECONOMIC INVOLVEMENT IN EGYPT IS ALSO LIKELY TO BE OF LONG DURATION, AND OUR ASSISTANCE PROGRAMS MUST NOT BE CONSIDERED IN A "LIGHT AT THE END OF THE TUNNEL" MANNER. THIS KIND OF THINKING IS NOT ONLY INCORRECT IT IS DANGEROUS, SINCE IT COULD LEAD TO EARLY DISILLUSIONMENT AND DISCOURAGEMENT, WITH THE CONSEQUENT ABANDONMENT OF AN IMPORTANT AND WORTHWHILE EFFORT. GIVEN THEIR TENDENCY FOR EUPHORIA, IT IS DOUBTFUL THAT MOST EGYPTIANS ARE REALLY AWARE OF THE POOR PROSPECTS FOR MEANINGFUL DEVELOPMENT IN THE NEAR TERM. THE US SHOULD BE, HOWEVER, IN ORDER TO HAVE THE BEST CHANCE AT HELPING THEM TO SUCCEED.

19. WE MUST ALSO EXPECT THAT IN ALL PROBABILITY THE GOE WILL CONTINUE TO BE RELATIVELY INEFFECTIVE IN THE ECONOMIC SPHERE. WE MUST BE PREPARED TO LIVE WITH INCOMPETENT MINISTERS AT THE HEAD OF AN INEFFICIENT AND CUMBERSOME BUREAUCRACY WHICH IS ATTEMPTING TO DEAL WITH EXTREMELY COMPLICATED AND DIFFICULT PROBLEMS. THE RESULTS OF THEIR EFFORTS ARE UNLIKELY TO DO MUCH TO HELP US IN OURS, BUT WE WILL NEED TO CONTINUE GUIDING, PRODDING, AND ASSISTING IN EVERY POSSIBLE WAY.

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20. WE MUST ALSO FOCUS ATTENTION ON PROVIDING THE EGYPTIANS WITH AS MUCH ASSISTANCE AS POSSIBLE IN DEVELOPING THE MANAGERIAL SKILLS REQUIRED TO PERMIT DEVELOPMENT OF THE ECONOMY. THIS SHOULD CONTINUE TO BE ONE OF THE MAJOR THRUSTS OF OUR AID PROGRAM.

21. THE AMOUNTS THAT WE CAN PROVIDE ARE AT BEST LIMITED. EGYPT'S ECONOMIC SALVATION LIES LARGELY IN THE HANDS OF THE ARABS, AND THIS WILL REQUIRE US TO MAINTAIN AND INCREASE

PRESSURE ON THEM, ESPECIALLY SAUDI ARABI, IN ORDER TO INSURE THAT THEY RECOGNIZE THEIR RESPONSIBILITIES AND THEIR OWN SELF-INTERESTS IN SUPPORTING SADAT. THESE EFFORTS WILL HAVE TO BE MORE FORCEFUL AND MORE CONTINUAL THAN THEY HAVE IN THE PAST IN ORDER TO SUCCEED. THIS WILL BE DIFFICULT, SINCE THE ARABS SEEM TO BE FULLY AWARE OF AND CONCERNED ABOUT THE PROBLEMS DISCUSSED IN THIS TELEGRAM. THEIR GROWING RELUCTANCE TO CONTINUE THROWING MONEY INTO WHAT THEY CONSIDER A BOTTOMLESS PIT IS ONE OF THE PRINCIPAL CAUSES OF THE PRESENT CRISIS.

22. WE MUST ALSO TAKE A FAR MORE ACTIVE ROLE IN ENCOURAGING THE GOE TO IMPLEMENT AN ECONOMIC REFORM PACKAGE IMMEDIATELY AFTER THE FORTHCOMING ELECTIONS. OUR "HAT PASSING" AMONG NON-ARABS AID DONORS IS NO LONGER SUFFICIENT, AND WE MUST PLAY A FAR MORE ACTIVE ROLE, TOGETHER WITH THE IMF AND THE IBRD, IN PUTTING TOGETHER WITH THE IMF AND THE IBRD, IN PUTTING TOGETHER A FINANCIAL ASSISTANCE PACKAGE WHICH WILL BE SUFFICIENT TO SUPPORT THE IMF-SPONSORED PROGRAM. THE ARABS, AS ABOVE, MUST BE MAJOR PARTICIPANTS IN SUCH A PACKAGE IN ORDER TO MAKE THE IMF CARROT AS LARGE AS POSSIBLE. IT SHOULD BE RECOGNIZED THAT EVEN IF IMF REFORMS ARE ACCEPTED, AND THEY MAY NOT BE, THIS WILL NOT BE THE MAGICAL SOLUTION TO EGYPT'S PROBLEMS. THE OVERALL REQUIREMENT FOR OUTSIDE HELP MAY POSSIBLY BE SOMEWHAT REDUCED, BUT IT WILL NOT BE ELIMINATED.

23. TO THE EXTENT THE EGYPTIANS IMPLEMENT THE REFORMS, AND TO INDICATE OUR SUPPORT FOR THE EFFORT, IT MAY BE NECESSARY FOR US TO MAKE A SERIES OF CRUCIAL DECISION ON THE NATURE OF THE ASSISTANCE WE PROVIDE. MAINTENANCE OF A HIGH PROPORTION OF PROJECTS IN OUR AID PROGRAMS IS A REASONABLE ECONOMIC DEVELOPMENT APPROACH, BUT OUR OBJECTIVES IN EGYPT

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MAY REQUIRE A GREATER SHARE OF BALANCE OF PAYMENTS SUPPORT IN ORDER TO ASSURE THAT SADAT HAS THE BEST CHANCE OF SUCCESSFULLY COMPLETING HIS EXPERIMENT. THOUGH IT MAY BE LESS POPULAR IN THE US., WE SHOULD BEGIN FOCUSING VERY CAREFUL ATTENTION ON THE UTILITY AND POSSIBILITY OF MAKING THE CIP PROGRAM SIGNIFICANTLY LARGER. IT MAY ALSO BE NECESSARY TO BEGIN CONSIDERING A PROGRAM OF STRAIGHT BUDGETARY SUPPORT IN ORDER TO INCREASE THE LIKELIHOOD OF ACHIEVING OUR OBJECTIVES. THESE STEPS MAY HAVE TO BE TAKEN EVEN IF REFORMS ARE NOT ADOPTED, IF IT BECOMES A MATTER OF SADAT'S SURVIVAL.

WRM TENACITY AND DEDICATION WILL CLEARLY BE REQUIRED IN ATTEMPTING TO HELP EGYPT HELP HERSELF. THIS MESSAGE IS INTENDED TO ASSIST IN RECOGNIZING THE REQUIREMENT, AND ADDITIONAL MESSAGES WILL SPELL OUT IN DETAIL SUGGESTED MEASURES TO BE TAKEN.

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